

November 1996

UNITED NATIONS

Status of Alternative
Revenue Raising
Proposals





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-274545

November 8, 1996

The Honorable Jesse A. Helms
Chairman, Committee on Foreign Relations
United States Senate

The Honorable Judd Gregg
Chairman, Subcommittee on Commerce, Justice,
State, the Judiciary, and Related Agencies
Committee on Appropriations
United States Senate

In response to your request, we are providing information on the United Nations' ability to raise revenues outside of member assessments. Specifically, this report deals with

- whether U.N. organizations receive substantial contributions from private sources;
- whether the United Nations has authority to implement revenue-raising options, including the imposition of taxes or fees within the jurisdictions of member states, and how the proposals would be processed in the U.N. system;
- the U.S. position on U.N. authority to impose taxes within the jurisdictions of member states; and
- U.N. proposals for raising revenues and the status of these proposals.

Background

The six principal components of the United Nations are the General Assembly, the Security Council, the Economic and Social Council, the Trusteeship Council,¹ the International Court of Justice, and the Secretariat. Numerous committees, commissions, programs, and other subsidiary bodies fall under the main components of the United Nations. For the 1994-95 biennium, the U.N. regular budget was \$2.6 billion. In 1995, the U. S. assessment was \$315 million.² In addition, the U.N. family of organizations includes numerous specialized agencies and other autonomous bodies, some of which have their own separate membership, system of governance, and financing structures. (See app. I.) We limited our review to the main components of the United Nations and the subsidiary bodies that receive funding through, or are directly controlled by, the main U.N. components.

¹The Trusteeship Council has suspended operations.

²This figure excludes assessments for peacekeeping.

Results in Brief

The United Nations receives only a small part of its financial support from private sources. U.N. operations are funded primarily from three sources: regular budget assessments, special assessments for peacekeeping missions, and voluntary contributions funded by member governments.³ In addition, the United Nations receives some funding through contributions from nongovernmental entities, such as foundations or other private international organizations. Of the \$5.9 billion voluntary contributions received in 1995, only \$584 million came from nongovernmental sources. The United Nations also generates income from commercial sales of products such as U.N. publications or from gift shop operations and fees for services. In addition, the United Nations has on two occasions borrowed funds from member states.

Because the United Nations is an organization of sovereign states with no independent power of its own, it has no authority to impose taxes within the jurisdictions of its member states. Granting such authority would, at a minimum, require an amendment to the U.N. Charter. An amendment requires approval and ratification in accordance with the respective constitutional processes by two-thirds of the members of the General Assembly, including all permanent members of the Security Council.⁴ The official position of the U.S. government is that it would veto any proposal to amend the U.N. Charter for this purpose. In early 1996, the United States and 77 other countries said that they would consider only voluntary funding approaches for the United Nations.

Alternative revenue-raising ideas have been solicited within the U.N. system. However, no formal proposals have been made. Some U.N. member states, under the auspices of the Economic and Social Council,⁵ have studied various financing mechanisms, some of which involve the imposition of taxes within the jurisdictions of the U.N. member states. The financing mechanisms studied include levies on international air and maritime transport, telecommunications, trade, and international currency transactions. The United States has encouraged delegations to the United Nations to discuss alternative funding sources; however, it has opposed any suggestion that the United Nations be granted authority to impose taxes.

³For a discussion of regular and peacekeeping budget assessments, see United Nations: How Assessed Contributions for Peacekeeping Operations Are Calculated (GAO/NSIAD-94-206, Aug. 1, 1994).

⁴Permanent members of the Security Council are China, France, the Russian Federation, the United Kingdom, and the United States.

⁵In the July 1996 Substantive Session of the U.N. Economic and Social Council, position papers were solicited from member states on new and innovative ideas for generating funds.

Funding for U.N. Main Components and Their Subsidiary Bodies

In addition to member assessments that finance the regular budget of the United Nations, the main U.N. components and their subsidiary bodies⁶ receive voluntary contributions from member governments and monies from nongovernmental entities such as businesses or foundations. It also obtains funds through a variety of other sources, such as sales of publications, gifts, and greeting cards; rental income; interest on trust funds; and gains from currency exchanges.⁷

While each U.N. agency accounts for funds received from such sources, the United Nations has no systemwide consolidated list of voluntary contributions or other funds received. Voluntary contributions may fund an organization's normal operations and/or be earmarked for specific programs or projects. U.N. financial systems are not harmonized, making it difficult to depict how voluntary funds are distributed. However, contributions to the U.N. Conference on Trade and Development (UNCTAD), the U.N. Development Program (UNDP), the U.N. Population Fund, and the U.N. Children's Fund (UNICEF), illustrate the diversity of U.N. organizations' funding.

UNCTAD provides technical assistance on trade promotion issues primarily to developing countries. In 1994-95, UNCTAD received its \$113.6 million regular budget from the U.N. Secretariat, and \$43.8 million in extrabudgetary support. In contrast, UNDP, the U.N. Population Fund, and UNICEF do not receive funding from the U.N. regular budget assessment but are funded by voluntary contributions from governments; nongovernmental organizations; and, in the case of UNICEF, partly through entrepreneurial endeavors.

UNDP's regular program is funded by voluntary contributions from member countries. In addition, member countries and private and international organizations voluntarily contribute funds for specifically earmarked trust funds or for specific projects through cost-sharing agreements.⁸ Both the

⁶The subsidiary bodies include the Office of the U.N. High Commissioner for Refugees, the Office of the U.N. High Commissioner for Human Rights, the U.N. Children's Fund, the U.N. Conference on Trade and Development, the U.N. Development Program, the U.N. Capital Development Fund, the U.N. Development Fund for Women, the World Food Program, the World Food Council, the U.N. Environment Program, the U.N. Population Fund, the U.N. International Drug Control Program, and the U.N. Research Institute for Social Development.

⁷The United Nations sells postage stamps, operates a gift center and newsstand, sells publications, and provides visitor services. Between 1994 and 1995, the United Nations earned about \$9 million from these activities.

⁸Cost-sharing agreements are designed to allow donors to contribute to specific projects within a country at their discretion. Recipient governments also make contributions to specific projects through cost-sharing agreements.

Ford and Rockefeller Foundations, for example, have contributed to cost-sharing projects, as have the multilateral development banks and the European Union.

The U.N. Population Fund, whose 1994-95 budget was \$586 million, is also funded by voluntary contributions, largely from donor governments. In addition, the Fund receives income by providing procurement services to governments. The Fund purchases contraceptives in bulk for recipient governments. In 1994-95, for example, the Fund earned about \$3 million from these services. Like UNDP, the U.N. Population Fund receives funds through cost-sharing agreements with governments.

In addition to voluntary contributions from member governments, UNICEF generates substantial income from other sources. For example, in 1995 UNICEF received \$655 million from governments to fund its programs and earned \$308 million by selling greeting cards and conducting private sector fund-raising activities. In 1994, UNICEF sold 158 million cards. UNICEF also conducts direct mail campaigns and other fund-raising activities, such as collecting British Airways' passengers' unwanted foreign currency. Fund-raising activities are also conducted by national committees located in 37 countries.

The United Nations Lacks Authority to Tax Members

Although its members are sovereign nations, the United Nations itself does not possess the attributes of sovereignty. The United Nations was created as a forum to mediate international disputes, maintain international peace, develop friendly relations among nations, promote social and economic progress, and foster respect for human rights. It is endowed by its members with certain powers necessary to discharge its functions. Those powers are limited to carrying out only those activities that are within the scope of its Charter.

Regarding financial matters, article 17 of the Charter vests the General Assembly with responsibility for the U.N. budget. Article 17 authorizes the General Assembly to "consider and approve the budget of the Organization." It provides that the "expenses of the Organization shall be borne by the Members as apportioned by the General Assembly." As noted by the International Court of Justice, "article 17 is the only article in the Charter which refers to budgetary authority or to the power to apportion expenses, or otherwise raise revenue."⁹

⁹1962 I.C.J. 151.

Article 17 authorizes the General Assembly to approve a budget and to apportion expenses among members; it does not authorize the United Nations to independently raise revenue by imposing fees or taxes on international transactions. More important, a basic underlying principle of the U.N. Charter acknowledges the sovereignty of all nations and generally prohibits the United Nations from intervening in matters that are essentially within the domestic jurisdiction of any state.¹⁰ Consistent with this underlying principle, at least one U.S. court has ruled that the United Nations has no power to legislate within the realm of the municipal law of the United States.¹¹ The power to tax, an attribute of sovereignty, is clearly within the U.S. domestic jurisdiction and the United Nations cannot independently impose taxes on U.S. citizens.

Implementation of any of the suggested taxes or fees on international transactions would, at a minimum, require an amendment to the U.N. Charter. A U.N. Charter amendment requires approval and ratification by two-thirds of the members of the General Assembly in accordance with their respective constitutional processes, including all the permanent members of the Security Council.¹² To be effected, an amendment requires ratification by the United States, a permanent member of the Security Council. In the United States, ratification requires the advice and consent of the Senate, provided two-thirds of the Senators present concur.¹³

U.N. Borrowing

As discussed above, the U.N. ability to raise revenue is limited to measures authorized under article 17.¹⁴ In addition to assessments and contributions, the General Assembly has authorized, in connection with its authority to consider and approve a budget, the United Nations to borrow funds to finance operations on at least two occasions. In both cases, the United States was the major lender and did not question the capacity or the authority of the United Nations to issue bonds or borrow money.¹⁵

¹⁰U.N. Charter, article 2(7).

¹¹*United States v. Keeney*, 111 F. Supp. 233 (1953), reversed on other grounds, 218 F. 2d 843 (1954).

¹²U.N. Charter, article 108.

¹³U.S. Constitution, article II, § 2.

¹⁴The regular budget of the United Nations, U.N. specialized agencies, and the International Atomic Energy Agency are generally financed with assessed contributions that members are obligated to pay under article 17. Special programs, such as UNICEF, are financed with voluntary contributions. Peacekeeping operations are typically financed with special assessments.

¹⁵Under article 104 of the U.N. Charter, the United Nations enjoys in the territory of each of its members such legal capacity as may be necessary for the exercises of its functions and the fulfillment of its purposes.

In the 1940s, the General Assembly authorized the Secretary General to negotiate a loan agreement with the United States for construction of the U.N. headquarters.¹⁶ The U.S. Congress authorized the President to enter into the loan agreement, which was brought into effect on August 11, 1948.¹⁷ On the second occasion, in the 1960s, the General Assembly authorized the Secretary General to issue \$200 million in bonds as part of a plan to alleviate a financial crisis.¹⁸ The bonds were offered to members of the United Nations; specialized agencies; the International Atomic Energy Agency; and if the Secretary General determined, after consultation with the Advisory Committee on Administrative and Budgetary Questions, non-profit institutions or associations.¹⁹ The U.S. Representative to the United Nations voted in favor of the bond issue and the Congress authorized appropriations in the amount of \$100 million.²⁰ The Congress regarded the bond issue as an extraordinary remedy that was not intended to set a precedent for future financing.²¹ The authorizing legislation specifically provided that it did not authorize the United States to participate in any future U.N. borrowings.²²

Options for Raising Revenues

Various options to raise revenues have been discussed within the U.N. system, but none have been formally proposed by any U.N. official or member state. Options discussed included (1) the issuance of bonds and borrowing money, which the United Nations has used in the past; (2) an international lottery; (3) obtaining fees from a U.N.-issued credit card; (4) the imposition of levies on international transportation-related activities and financial transactions; (5) obtaining fees from a U.N.-established international currency exchange; or (6) the borrowing of funds from international financial institutions such as the World Bank. State Department officials note that the World Bank can lend only to sovereign governments, and since the United Nations is not a sovereign entity, this option is not viable.

¹⁶General Assembly Resolution 182(II), November 20, 1947.

¹⁷U.N. Headquarters Agreement Act, Public Law No. 80-357, 61 Statute 756 (1947).

¹⁸General Assembly Resolution 1739 (XVI), December 20, 1961.

¹⁹Conceivably, if the General Assembly had chosen to at the time, it could also have authorized sale of the bonds to commercial institutions.

²⁰22 U.S.C. 287g.

²¹Senate Report Number 1277, 87th Congress 2d Session (1962).

²²22 U.S.C. 287j.

According to State Department officials, the United Nations has not formally raised for discussion any of these options at economic summits. In May 1995, the U.N. Secretary General sent a letter to the Group of 7 (G-7) heads of state prior to the June 1995 meeting in Halifax, Nova Scotia.²³ The letter discussed the financial challenges facing the United Nations and the need to streamline operations and improve management. The Secretary General said in the letter that he would be relying on the General Assembly's High-Level Open-Ended Working Group on the Financial Situation to identify options but without mentioning specific proposals. According to State Department officials, none of the proposals were on the agenda of the 1996 G-7 meeting held in Lyon, France. Many of the options lack broad international support. For example, in early 1996, the United States and 77 other countries said that they would consider only voluntary funding mechanisms for the United Nations.

U.S. Position on Involuntary Levies

The official U.S. policy is that the United States opposes involuntary methods of raising additional revenue within the U.N. system. The U.S. Representative for U.N. Management and Reform stated at the High-Level Open-Ended Working Group on the Financial Situation of the United Nations in January 1996 that the United States does not support any involuntary funding approach to support the United Nations. Further, State Department officials said that the United Nations does not have the authority to impose or collect any form of tax, and the U. S. government would not consent to any proposal to grant such authority. In March 1996, the U.S. Permanent Representative to the United Nations stated that the United States supports addressing the U.N. financial situation with management reforms and encourages the United Nations to discuss alternative funding sources. She also stated that the United States would oppose any plan to finance U.N. activities by taxing member states. The U.S. veto power would prohibit implementation of any tax. According to State officials, no formal proposals to impose a tax on U.S. citizens have been made, and State has not assessed the impact of a tax on U.S. bilateral or multilateral agreements.

Agency Comments

The Department of State reviewed a draft of this report and agreed with its contents. The Department's comments are reproduced in their entirety in appendix II.

²³The G-7 comprises the following industrialized countries: Australia, Canada, France, Germany, Italy, the United Kingdom, and the United States.

Scope and Methodology

For information on the funding sources available to U.N. organizations, we obtained financial and other documentation from the United Nations and its subsidiary bodies. To identify U.N. authority to implement revenue-raising options, we reviewed the U.N. Charter. To identify U.N. proposals for raising revenues, we interviewed officials at and obtained documentation from the United Nations, the Department of State, and the U.S. Mission to the United Nations. To determine the U.S. position on U.N. authority to impose taxes within the jurisdictions of member states, we spoke with officials at the Department of State and the U.S. Mission to the United Nations. As an agency of the United States, we have no direct audit authority to review international organizations, including the United Nations or its specialized agencies. However, these organizations cooperated with us in our data collection efforts, although we could not independently verify the accuracy of the data they provided. We performed our review between June and September 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Secretary of State, the Director, Office of Management and Budget, and interested congressional committees. Copies will also be made available to others upon request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Major contributors to this report were LeRoy W. Richardson, Patricia L. Martin, Joseph C. Brown, and Mark C. Speight.



Harold J. Johnson, Associate Director
International Relations and Trade Issues

The United Nations System

The U.N. Principal Components

The General Assembly
The Security Council
The Economic and Social Council
The Trusteeship Council¹
The International Court of Justice
The Secretariat

Related U.N. Programs and Subsidiary Bodies

Office of the U.N. High Commissioner for Refugees
Office of the U.N. High Commissioner for Human Rights
U.N. Children's Fund
U.N. Conference on Trade and Development
U.N. Development Program
U.N. Development Fund for Women
World Food Program
World Food Council
U.N. Environment Program
U.N. Population Fund
U.N. International Drug Control Program
International Trade Center

Specialized Agencies and Other Autonomous Bodies

Food and Agricultural Organization
General Agreement on Tariffs and Trade
International Trade Center
International Atomic Energy Agency
International Consultative Group on Food Irradiation
International Civil Aviation Organization
International Fund for Agricultural Development
International Labor Organization
International Maritime Organization
International Monetary Fund
International Telecommunication Union
U.N. Educational, Scientific, and Cultural Organization
U.N. Industrial Development Organization
Universal Postal Union
World Health Organization

World Bank Group

International Bank for Reconstruction and Development
International Development Association

¹The Trusteeship Council has suspended operations.

International Finance Corporation
Associated Organizations:
 Consultative Group on International Agricultural Research
 International Center for the Settlement of Investment Disputes
 Multilateral Investment Guarantee Agency

**Regional Development
Banks**

African Development Bank
Inter-American Development Bank
Institute for Latin American Integration
Asian Development Bank
Caribbean Development Bank

**Peacekeeping
Operations**

U.N. Truce Supervision Organization in Palestine
U.N. Military Observer Group in India and Pakistan
U.N. Peacekeeping Force in Cyprus
U.N. Disengagement Observer Force (between Israel and Syria in the
 Golan Heights)
U.N. Interim Force in Lebanon
U.N. Iraq-Kuwait Observation Mission
U.N. Mission for the Referendum in Western Sahara
U.N. Mission in Bosnia and Herzegovina (includes International Police
 Task Force)
U.N. Preventative Deployment Force (in the former Yugoslav Republic of
 Macedonia)
U.N. Observer Mission in Liberia
U.N. Observer Mission in Georgia
U.N. Support Mission in Haiti
U.N. Angola Verification Mission III
U.N. Mission of Observers in Tajikistan
U.N. Transitional Administration for Eastern Slavonia, Baranja, and
 Western Sirmium
U.N. Mission of Observers in the Prevlaka

Source: Congressional Research Service.

Comments From the Department of State



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

October 16, 1996

Dear Mr. Hinton:

We appreciate the opportunity to review your draft report, "UNITED NATIONS: REVENUE RAISING OPTIONS," GAO/NSIAD-96-231R, GAO Job Code 711208.

The Department of State notes that the report addresses a number of concerns that the Congress has raised about the authority of the UN to impose taxes on U.S. citizens.

We find that the report contains a useful analysis of UN revenue options. It clearly and accurately reflects historical data on the issue as well as the position of the U.S. Government in opposing any tax scheme. We fully concur with the thrust of the draft report, i.e., the UN cannot impose any form of tax without the consent of the United States.

The Department's position on the adoption of measures by the UN to impose taxes is well known. We are strongly opposed to any such tax. We should add that the UN General Assembly has not made a formal proposal to tax member states; nor do we expect any such proposal will be seriously considered in the future.

We are pursuing meaningful and tangible reforms at the UN that will result not only in more cost effective budgets, but also in a more equitable system of financing. Moreover, we fully expect the new Secretary-General to be a forward looking, reform-minded individual who will position the UN to meet the challenges of the next millennium.

The Department believes that these efforts and the U.S. commitment to make payments required by its treaty obligations will enhance our credibility and reduce calls for unacceptable measures to finance UN system agencies in the future.

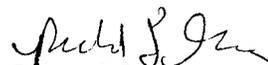
Mr. Henry L. Hinton, Jr,
Assistant Comptroller General,
National Security and International Affairs,
U.S. General Accounting Office.

Appendix II
Comments From the Department of State

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We hope that the views we have conveyed are useful. If you have any questions, please call Ms. Teresa Hobgood, IO/S/SB, at (202) 647-6419.

Sincerely,


Richard L. Greene

Enclosure:
As stated.

cc:
GAO/NSIAD - Mr. Richardson
STATE/IO/S/SB - Ms. Hobgood

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